

Billing and Collection Processes

The Department currently bills its residential customers and some small commercial customers bi-monthly and all other customers monthly. Such bills are due within 15 days of receipt. The Department has established various payment programs for its customers, including a leveled monthly payment program and an electronic funds transfer program. Accounts receivable write-offs by the Department in 2001 and 2002 were less than one percent of energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory prohibitions against disconnecting customers in winter months.

Financial Policies

The rate covenants in the Department's Parity Bond ordinances do not require the Department to set rates that achieve a specific level of debt service coverage on Parity Bonds. However, the City Council has adopted by resolution financial policies to be used by the Department in setting rates. From 1990 through December 2001, these policies required that rates be set at levels that would be expected to provide debt service coverage of 1.80 times debt service on Parity Bonds. In December 2001 the City Council adopted by resolution new financial policies which require that rates be set at levels that will provide 95 percent confidence that net revenue available to fund capital requirements will be greater than zero, after payment of all operating and maintenance expenses, debt service, City taxes, deposits to the Parity Bond Reserve Fund, and other current obligations. Coverage is expected to exceed 2.0 times debt service on Parity Bonds under the new rate-setting policies. The new policies additionally require that, in the first two years in which they are in effect, rates be set at levels which will allow the accumulation of a \$25 million contingency reserve account. The new rate-setting policies will take effect after the Department has retired all short-term debt obligations, including the 2002 Notes and the amounts borrowed from the Cash Pool, and has accumulated an operating cash balance of \$30 million. Rates will remain at current levels until the new policies take effect, unless increased by the City Council or otherwise changed to pass through increases or decreases in Bonneville rates. See "Power Resources—Purchased Power Arrangements." The Department expects that the conditions which will allow the new financial policies to take effect will be met in mid-2004. See "Historical and Projected Operating Results." The Department's financial policies are subject to change by the City Council.

CUSTOMERS, ENERGY SALES AND PEAK LOADS

Service Area

The Department's 131 square-mile service area consists of the City plus areas extending three to four miles north and south of the city limits. Because of these geographic limitations, the growth of the Department's electric load has resulted exclusively from development within the service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately one-sixth of retail energy sales and revenues. The Department has a franchise agreement with King County that extends until 2007 and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99 percent of the Department's retail energy sales outside the City in 2002. The Department's service area also includes portions of the cities of Normandy Park and Renton.

Largest Customers

The Department's ten largest customers in 2002, in order of their maximum kW demand, were the Boeing Company, Nucor Steel Company (formerly Birmingham Steel Company), the University of Washington, King County, the United States Government, the Jorgensen Forge Corporation, Saint Gobain Containers, the City of Seattle, Seattle Public Schools, and Unico Properties/Union Square Ltd. These customers accounted for approximately 15.2 percent of retail energy sales and 12.9 percent of retail energy revenues in 2002. The load factors of these customers ranged from 6.7 percent to 77.8 percent, with an average load factor of 40.1 percent.

Historical Sales

Energy sales in the Department's service area can be affected by variations in weather conditions. In winter months, colder than normal weather patterns can result in higher loads, due to the extensive use of electricity for heating. However, warmer than normal conditions in summer months do not lead to significant increases in load because of the limited use of residential air conditioning. Temperatures in the service area were near normal in 2000 and 2001. Warmer than normal temperatures in the winter of 2002-2003 have affected sales in 2002 and 2003.

From 1991 through 2000, retail energy sales within the Department's service area increased at an average rate of 0.8 percent per year. In 2001 energy sales were 5.1 percent below the 2000 level. The amount of energy consumed by retail customers in 2001 was influenced by the Department's public appeal for reduced consumption, the price response to a series of substantial rate increases, the local effects of the general economic downturn, and the events of September 11, 2001.

Total sales of energy to residential customers, which constituted 34.0 percent of the Department's energy sales in 2002, were relatively stable over the 1991-2000 period, despite a 1.1 percent average annual increase in the number of customers during this period. The declining level of consumption per customer reflects smaller household size, fuel-switching, the effect of domestic conservation efforts, and enhanced energy efficiency elements of building codes. In 2002, residential consumption was 6.8 percent below the 2000 level.

Commercial and governmental customers accounted for 52.8 percent of total sales in 2002. Sales growth in these customer classes averaged 1.6 percent annually from 1991 to 2000. Consumption by commercial and governmental customers in 2002 was 2.7 percent below the 2000 level.

The industrial customers served by the Department represented 13.1 percent of retail sales in 2002. Sales to this sector exhibited a slight downward trend over the period 1991-2000, declining at an average annual rate of 0.3 percent. In 2002, sales to industrial customers were 13.8 percent lower than in 2000. The local economic recession and the increase in energy prices were major factors in this decline.

A record peak load of 2,059,566 kW was recorded in December 1990 due to unusually cold weather. The 2002 peak load was 1,689,666 kW and occurred in January.

Load Forecast (2003-2008)

The Department's ongoing planning activities include the annual preparation of a forecast of firm system load, derived from a forecasting model that assumes average weather conditions and includes other independent demographic and economic variables developed from an historical service area database. The most recent load forecast presented in the table "Retail Customers, Energy Sales and Energy Requirements" incorporates the estimated impact on load of adopted and projected rate changes, the Department's conservation programs and the residual effects of the Department's efforts to reduce electricity consumption during 2001. See "The Department—Retail Rates."

The forecast of system load for the 2003-2008 period is based on actual experience through April 30, 2003. In 2002, actual load was 0.5 percent above the 2001 level; weather-adjusted load was almost identical to load in 2001. For the first five months of 2003, actual load was 3.7 percent below the level of the corresponding period in 2002, primarily because of warmer than normal weather conditions. Adjusted for weather effects, load was 0.9 percent below the prior year's level. For calendar year 2003, weather-adjusted load is projected to be 0.6 percent below load in 2002. From 2004 through 2008, load is projected to increase at an average annual rate of 1.7 percent.

Both the number of residential customers and sales to the residential sector are expected to increase at an average annual rate of 1.0 percent from 2004 through 2008. Sales to commercial and governmental customers are projected to increase at an average rate of 2.1 percent per year over the same period. As the region emerges from the economic slowdown of 2001-2003, sales to the industrial sector are expected to return to the 2000 level by 2007, implying an annual growth rate of 2.3 percent over the 2004-2008 period. The table below provides a summary of historical and projected customers, energy sales and energy requirements.

RETAIL CUSTOMERS, ENERGY SALES AND ENERGY REQUIREMENTS

	Actual			Projected					
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Number of Customers ⁽¹⁾									
Residential	316,758	322,707	327,127	332,560	335,556	338,719	341,964	345,347	348,146
Commercial	30,839	30,934	31,418	32,068	32,068	32,068	32,068	32,068	32,068
Governmental	1,686	1,776	1,824	1,829	1,829	1,829	1,829	1,829	1,829
Industrial	276	259	263	258	258	258	258	258	258
Total Customers	349,559	355,676	360,632	366,715	369,711	372,874	376,119	379,502	382,301
Energy Sales (MWh)									
Residential	3,267,710	3,050,900	3,045,768	2,969,717	3,030,320	3,054,684	3,095,944	3,135,293	3,153,164
Commercial	3,932,043	3,829,360	3,872,749	3,724,883	3,816,660	3,843,973	3,917,133	3,992,177	4,065,228
Governmental	908,283	858,111	839,081	857,459	902,482	932,597	976,154	1,022,031	1,061,353
Industrial	1,352,457	1,237,424	1,165,532	1,245,721	1,286,174	1,303,286	1,338,201	1,374,424	1,406,980
Total Energy Sales ⁽²⁾	9,460,493	8,975,795	8,923,130	8,797,780	9,035,636	9,134,540	9,327,432	9,523,925	9,686,725
Peak Demand (MW) ⁽³⁾	1,769	1,662	1,690	2,031	2,094	2,163	2,198	2,198	2,198
Energy Requirements (MWh)									
Total Energy Sales	9,460,493	8,975,795	8,923,130	8,797,780	9,035,636	9,134,540	9,327,432	9,523,925	9,686,725
Energy used in Operation	35,296	32,144	33,672	30,660	30,744	30,660	30,660	30,660	30,744
Energy for Public Lighting ⁽⁴⁾	78,436	78,741	78,859	81,513	82,771	83,514	84,514	85,514	86,784
System Losses ⁽⁵⁾	460,470	392,236	491,005	435,356	447,192	452,059	461,531	471,187	479,210
Total Energy Requirements ⁽⁶⁾	10,034,695	9,478,916	9,526,666	9,345,309	9,596,343	9,700,773	9,904,137	10,111,286	10,283,463

- (1) The Department's forecast projects an increase in the number of residential customers but no change in the number of customers in other classes.
- (2) Energy sales in the Department's service area only.
- (3) Data for 2000, 2001 and 2002 reflect the actual one-hour peak load. Projections for 2003 through 2008 reflect the 16-hour peak load under extremely cold weather conditions.
- (4) Energy for streetlighting in the City of Seattle.
- (5) Includes transmission and distribution losses.
- (6) Firm energy required in the Department's service area.